HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Québec CMA

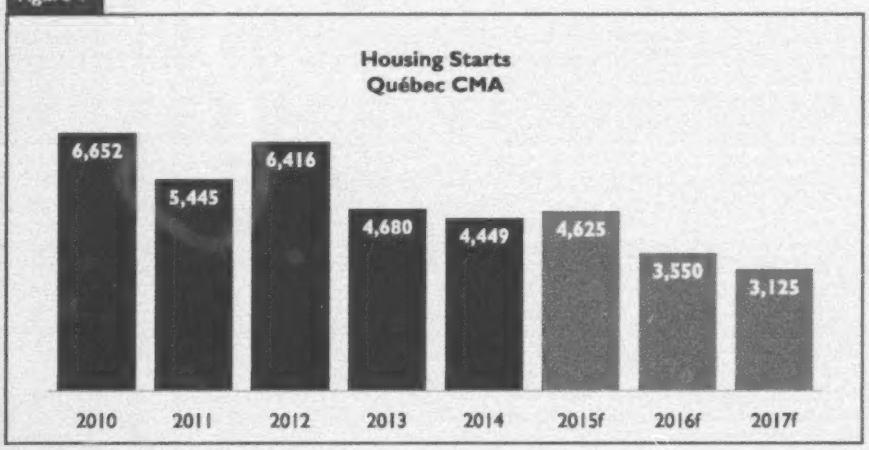
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2015

Highlights

- The economic and demographic environment will be fairly stable in the census metropolitan area (CMA), such that housing demand will remain comparable to that of 2015.
- However, the new home market will be slowed down by the supply of properties for sale and for rent. Housing starts will decline by 23 per cent in 2016, and by 12 per cent in 2017.
- On the existing home market, a slight pickup in activity will be observed. Centris® sales will increase by 4 per cent in 2016, and by 3 per cent the following year.
- Easing of the market conditions will continue on the rental market. The vacancy rate will climb from 3.8 per cent this year to 4.5 per cent next year, and 5.0 per cent in 2017.

Figure 1



Source: CMHC f: CMHC forecasts

The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents risks where appropriate. The forecasts and historical data included in this document reflect information available as of September 28, 2015.

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HOME TO CANADIANS

New home market: housing starts will decrease and be more in line with demand

After a year that was fairly active in terms of housing starts, the pace will slow down in 2016 and 2017. The downward trend is mainly due to the increase in the supply of existing properties for sale, the still rather significant inventory of new unsold condominiums, and the softening of the conventional rental market.

Housing starts will therefore decline, which will promote the absorption of stocks. There were 4,625 housing starts in 2015; this number will fall to 3,550 in 2016 (-23 per cent) and to 3,125 in 2017 (-12 per cent).

Single-detached homes: general trends will continue

Most of the factors currently restricting the expansion of the single-detached housing market will persist in the CMA over the next two years. A much larger supply of existing homes, the overall higher cost of new housing types resulting, in part, from the higher price of lots, as well as municipal policies that favour intensification will slow down single-detached housing starts.

Moreover, several of these factors are particularly prominent in the central areas, so the outlying sectors of the Québec area will continue to attract most of the single-detached housing starts. It should be noted that in 2014, nearly 50 per cent of single-detached housing starts were located in the Northern Suburbs of the CMA.

The annual drops in single-detached housing starts will be 9 per cent in 2016 and 3 per cent in 2017, respectively. Thus, 750 units will be started in 2016, and 725 units in 2017.

Multi-unit housing: adjustments will be felt

Multi-unit housing starts will decline in both 2016 and 2017, mainly as a result of the inventory of condominiums for sale and the increase in the rental housing vacancy rate.

Semi-detached and row housing starts will drop in 2016 before stabilizing in 2017. In fact, there has been an accumulation of some stock of new housing types, while the supply of existing properties is on the rise. This should lead builders to ease the pace in order to better adjust to the demand. From 450 units in 2015, the number of units started will decrease to 350 in 2016, and then stabilize the following year.

Construction of apartment buildings will slow down in the CMA, since builders will likely direct their efforts to the absorption of their units for sale and for rent.

The condominium market, for its part, will continue its absorption—which began in 2013—given the abundant supply on the resale market and the still rather significant number of new units. Condominium starts are therefore expected to decline by 33 per cent in 2016 and by 14 per cent in 2017. All in all, there should be 700 units started in 2016 and 600, the following year.

In the rental housing segment, the marked growth in housing starts this year should be noted: they have more than doubled for the first eight months of the year, compared to the same period last year. In all, 2,250 starts are expected this year, compared to 1,643 last year. It should be mentioned that this level of activity has not been seen in the area since the early 1990s.

The vigour that characterizes this segment is attributable to the soft market conditions for condominiums and the new business directions that have been taken by several developers, who are anticipating future demand from baby boomers and seniors, and who plan to continue their activities.

Over the next few years, however, overall rental housing demand should grow at a slower pace than before, mainly given the lower population growth. However, this will not be the case for the demand for units in retirement homes, since there will be an increasingly significant rise in the population aged 75 and older until 2022.[1]

On the conventional rental market, it is expected that the increase in supply will exceed demand, which should result in an increase in vacancy rates from now until 2017 (see the section on the rental market). However, the demand for units in retirement homes will likely increase in a context where the supply will adequately meet the needs of new generations of seniors.

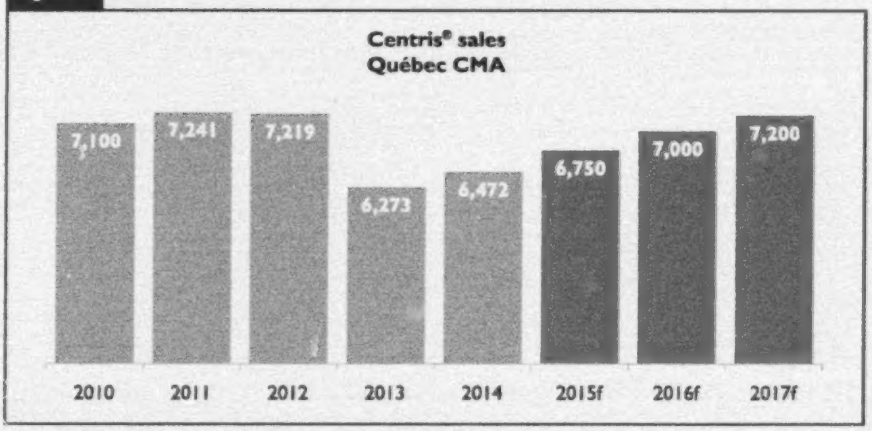
Next year and in 2017, rental housing starts are therefore expected to decline as the vacancy rate will rise in the conventional segment. It should be noted, however, that a certain number of retirement housing starts will begin because of the expected increase in demand.

[1] Institut de la statistique du Québec (ISQ), population projections for 2011 to 2036.

In all, 1,700 rental housing starts are expected in 2016, and 1,400 in 2017, which will correspond to annual drops of 24 per cent and 18 per cent, respectively.

Activity in the multi-unit housing segment will therefore slow down from now until 2017, and should reflect the adjustments of supply in relation to demand. Overall, 2,800 units will be started in 2016, a decrease of 26 per cent year over year. The anticipated decline in 2017 will be 14 per cent, for a total of 2,400 units started.

Figure 2



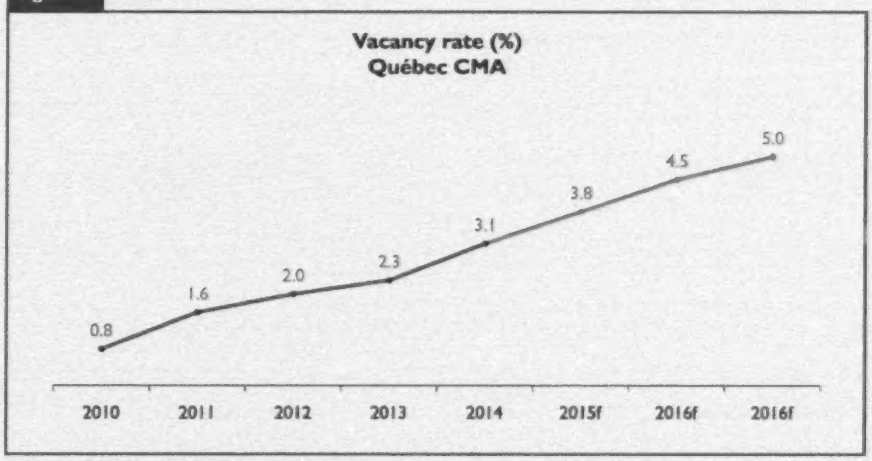
Source: QFREB by Centris® system f: CMHC forecasts

Resale market: the moderate growth already fueling this market will continue over the next two years

The robust job market and low mortgage rates will continue to support Centris® sales until 2017. One also has to consider the fact that the resale market is naturally expanding, given the increase in the housing stock over the years. Therefore, the number of transactions conducted through real estate brokers will increase by 4 per cent next year and by 3 per cent in 2017. Overall, sales will reach 7,000 units in 2016 and 7,200 units in 2017. It should be noted, however, that this second figure is below the average for the last ten years of 7,325 units.

As for supply, weaker growth is expected. In fact, the number of active listings will be more moderate than in recent years[2] given the larger number of expected sales. Supply will increase by 7 per cent in 2016 and by 4 per cent in 2017.

Figure 3



Source: CMHC f: CMHC forecasts

Despite all this, the level of expected sales will not be sufficient to stabilize market conditions, which ought to ease very slightly. Overall, the resale market will remain favourable to buyers over the forecast horizon.

From now until 2017, the single-family home market will be slightly favourable to buyers, given the marginal increase in sales and the expected supply. On the condominium market, the increase in sales will be moderate and will not lend itself to a quick absorption of the supply. Thus, buyers will clearly be at an advantage. Finally, the plex market will remain favourable to buyers, but it will not be as soft as the condominium market. The average time to sell for condominiums will remain longer, and should hover around 150 days, whereas the average time to sell for single-family homes should remain around 120 days.

[2] The annual increase of active listings was 15 per cent in 2014 and should reach 12 per cent in 2015.

Prices will not vary much and will increase by 1 per cent next year, and by 1.5 per cent the following year. The average housing price will reach $274,000 in the Québec area in 2017. It should be noted, however, that it would not be surprising to see a decline in condominium prices, given the market conditions that will remain favourable to buyers. Price increases will be slight, but should continue for single-family homes, which account for 70 per cent of Centris® sales.

Rental housing market: vacancy rates are expected to increase

Market conditions are expected to ease between now and 2017. The vacancy rate will increase as a result of the increase in supply and the decrease in demand.

Several factors will keep demand from growing on the conventional rental market over the next few years: employment stability, less sustained migration than before and slower population growth.

Rental housing supply is on the rise this year, fueled by several developers' new directions and business decisions. Although some developers are trying to maintain a certain level of activity, others are anticipating a relatively high demand from baby boomers who are gradually reaching retirement age. Overall data from January to August 2015 show an 80-per-cent growth in housing starts compared to the same period in 2014.

Since this increased supply will be particularly evident next year, when these units will be completed, there will be fewer rental housing starts over the next two years.

Despite the expected drop in housing starts, the increase in supply is expected to outstrip the increase in demand. The vacancy rate will go from 3.1 per cent in 2014 to 3.8 per cent this year, 4.5 per cent next year and 5.0 per cent in 2017.

Tenants will have more choice, which will be reflected in the rents; increases in the average rent will be less significant than in previous years. The average rent for a two-bedroom apartment will reach $800 in 2016 and $805 in 2017.

Economy and demographics: conditions are expected to remain fairly stable

Between now and 2017, the labour market should not change significantly, as opposing forces will cancel each other out.

On the one hand, exporting manufacturing industries should benefit from favourable conditions, characterized by economic growth in the United States and a relatively low Canadian dollar. This context will also favour the tourism industry.

On the other hand, the effects of the provincial government budget cuts will be felt in the Québec area, where a significant portion of jobs are in the public and parapublic sectors. In addition, because several large projects are being completed, residential and non-residential sector investments should decrease somewhat over the next few years

In all, these factors will result in a relative stability in the CMA's job market.

Still, the area's economy will continue to attract workers from the other areas, given the strength of the labour market, which will keep the unemployment rate below the provincial average[3] at 5.5 per cent in both 2016 and 2017. It should be added that the area also posted a relatively high employment rate, which reached 66 per cent in August. This rate corresponds to the proportion of people who had a job among those of working age (15 to 64 years old). In the province, only the Gatineau metropolitan area has a higher rate than the Québec CMA in this regard, with an employment rate of nearly 73 per cent over the same period.

Over the next two years, the number of jobs will be rather stable, such that housing demand will be comparable to that observed in 2015.

In regard to net migration in the CMA, the latest migration data indicate a growth in immigration and a decrease in the number of newcomers from other areas of the province. Net interprovincial migration continues to show that the area is losing residents. Lastly, net migration decreased by 10 per cent from 2013 to 2014.

[3] CMHC provincial unemployment rate forecasts: 7.2 per cent in 2016 and 6.3 per cent in 2017.

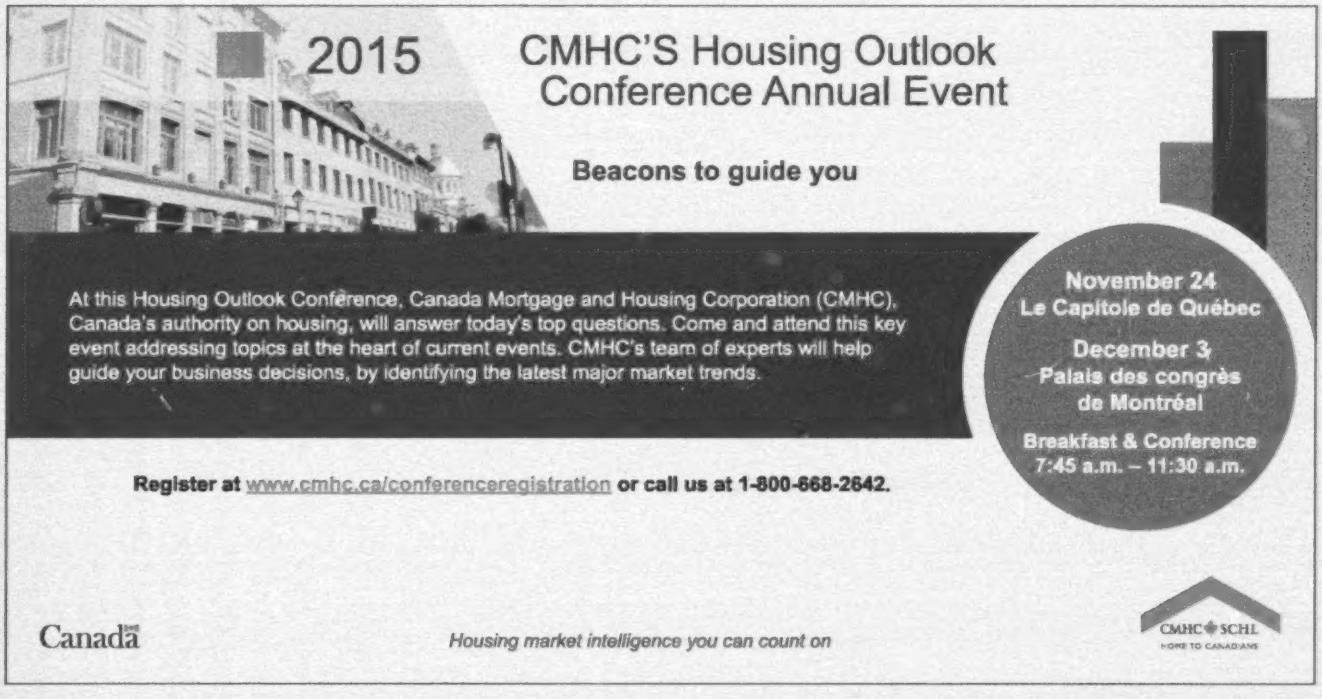
The area should continue to attract a significant number of newcomers thanks to its labour market that stands out. The area will also lose fewer residents to other provinces, given the deterioration of the oil and gas industry job market in the West. Interregional net migration should not change significantly, since strong job creation is not in the cards either. From now to 2017, slight growth in net migration is expected, which will bring the total to 5,000 people next year and 5,100 people the following year. These results are comparable to the average for the last five years.

Migration levels will remain relatively unchanged in the Québec area, which will support demand on the rental market. Newcomers to an area usually opt for rental housing.

Mortgage rates are expected to begin to rise moderately from current levels late in 2016

Mortgage rates are expected to continue trending close to current levels, supporting housing demand. However, consistent with the view of Canadian economic forecasters, CMHC expects interest rates to begin to rise moderately from current levels late in 2016, contributing to a modest slowdown in housing markets.

According to CMHC's base case scenario for 2015, the one-year mortgage rate is expected to be in the 2.60 to 3.30 per cent range, while the five-year rate is forecast to be within the 4.10 to 5.20 per cent range. For 2016, the one-year mortgage rate is expected to be in the 3.00 to 3.80 per cent range, while the five-year rate is forecast to be within the 4.70 to 6.00 per cent range. For 2017, the one-year mortgage rate is expected to be in the 3.90 to 4.80 per cent range, while the five-year rate is forecast to be within the 5.10 to 6.50 per cent range.



Trends at a glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates will begin to rise gradually late in 2016, contributing to a reduction in housing demand.
Employment	Over the next two years, the number of jobs will be rather stable, such that housing demand will be comparable to that observed in 2015.
Income	Recently, average weekly earnings decreased slightly, which will contribute to restricting demand in 2016.
Population	The demographic outlook is pointing to slower growth in the number of households, which should contribute to tempering overall demand for new housing.
Resale Market	The supply of existing properties will be greater, which will restrict demand and supply of new housing.
Supply	The relatively high inventory of new condominiums will continue to limit housing starts between now and 2017.

Forecast risks

This outlook is subject to some risks, including the following:

- If economic growth in North America is weaker than expected or if the impact of budget cuts is greater than expected, employment could decline between now and 2017, which would reduce housing demand.
- Developers could overestimate rental housing demand in the short term and there could be more conventional rental housing starts than expected, which would result in a greater easing of market conditions.
- The forecasted accelerated growth in the senior population could lead developers to position themselves quickly and start more senior's housing projects than expected demand. This could lead to an accumulation of units for rent and an increase in the time needed to absorb them.

Forecast Summary Québec CMA Fall 2015									
	2012	2013	2014	2015(F)	% chg	2016(F)	% chg	2017(F)	% chg
New Home Market									
Starts:									
Single-Detached	1,258	961	887	825	-7.0	750	-9.1	725	-3.3
Multiples	5,158	3,719	3,562	3,800	6.7	2,800	-26.3	2,400	-14.3
Starts - Total	6,416	4,680	4,449	4,625	4.0	3,550	-23.2	3,125	-12.0
Average Price ($):									
Single-Detached	326,583	354,041	356,521	366,000	2.7	368,000	0.5	370,000	0.5
Median Price ($):									
Single-Detached	292,174	300,000	300,000	300,000	0.0	300,000	0.0	300,000	0.0
New Housing Price Index (% chg.)	2.9	1.1	0.2	0.5	-	0.5	-	0.0	-
Resale Market[1]									
Centris® Sales	7,219	6,273	6,469	6,750	4.3	7,000	3.7	7,200	2.9
Centris® New Listings	12,689	12,696	13,335	13,700	2.7	14,000	2.2	14,200	1.4
Centris® Active Listings	4,694	5,620	6,461	7,200	11.4	7,700	6.9	8,000	3.9
Centris® Average Price ($)	257,879	267,294	264,589	267,000	0.9	270,000	1.1	274,000	1.5
Rental Market[2]									
October Vacancy Rate (%)	2.0	2.3	3.1	3.8	0.7	4.5	0.7	5.0	0.5
Two-bedroom Average Rent (October) ($)	741	757	775	790	1.9	800	1.3	805	0.6
Economic Overview									
Mortgage Rate (1 year) (%)	3.17	3.08	3.14	2.60 to 3.30	-	3.00 to 3.80	-	3.90 to 4.80	-
Mortgage Rate (5 year) (%)	5.27	5.24	4.88	4.10 to 5.20	-	4.70 to 6.00	-	5.10 to 6.50	-
Annual Employment Level	429,100	428,500	433,700	435,000	0.3	435,000	0.0	435,000	0.0
Employment Growth (%)	0.9	-0.1	1.2	0.3	-	0.0	-	0.0	-
Unemployment rate (%)	5.0	4.7	5.3	5.5	-	5.5	-	5.5	-
Net Migration	5,302	5,385	4,843	4,850	0.1	5,000	3.1	5,100	2.0

[1]Source : QFREB by Centris®. The Centris® system contains all the listings of Québec real estate brokers.

[2]Rental universe = Privately initiated rental apartment structures of three units and over.

Sources: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), Centris® Statistics. CMHC Forecast (2015-2017)

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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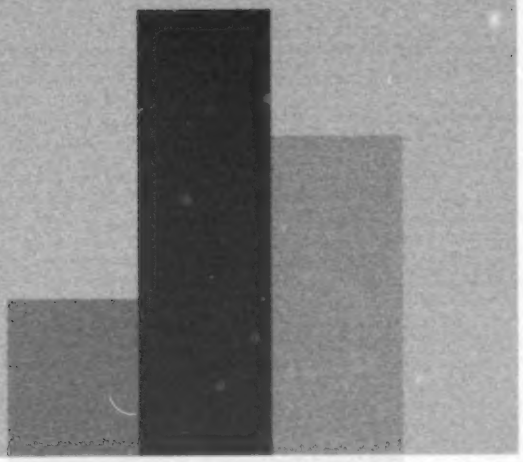

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